

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF PINCONNING	County BAY
Audit Date 6/30/04	Opinion Date 9/21/04	Date Accountant Report Submitted to State: 11/12/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

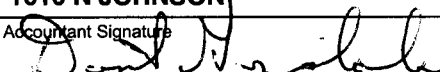
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) QUAST JANKE & CO. P.C.			
Street Address 1010 N JOHNSON	City BAY CITY	State MI	ZIP 48708
Accountant Signature 		Date 11/8/04	

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL STATEMENTS
FISCAL YEAR ENDED June 30, 2004

CITY OFFICIALS - As of June 30, 2004

Mayor	Duane Gromaski, Sr.
Council Member	Robert K. Hall
Council Member	Clifford Dennison
Council Member	Mark Nadolney
Council Member	Stanley Brankenburg
Council Member	Linda Byrne
Council Member	Michelle Bleshenski
Treasurer	Crystal Hebert
Clerk	Terri Hribek
Attorney	Darbee, Bosco and Hammond, PC
Supt. Of Public Safety	Thomas Tober
City Manager	Richard Byrne

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Quast, Janke and Company, P.C.
Certified Public Accountants

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Members:
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Michigan Association of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

September 21, 2004

To the City Council
The City of Pinconning
Bay County
Pinconning, Michigan 48650

We have audited the financial statements of the governmental activities, business-type activities, and major funds as of and for the year ended June 30, 2004 which collectively comprise the City of Pinconning's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business-type activities, the discretely presented component unit and each major fund as of June 30, 2004, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
The City of Pinconning
September 21, 2004
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Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Pinconning's annual Financial Report presents Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2004. The analysis focuses on the City's financial performance as a whole. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Because the City of Pinconning is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the City of Pinconning exceeded liabilities at June 30, 2004, by \$3,352,344.32. Of this amount \$469,056.03 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets decreased by \$44,132.56 during the year. Of this amount the assets of our governmental activities increased \$75,280.23 and the assets of our business-type activities decreased by 119,412.79.

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statement report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supplementary Information provides detailed information about the General Fund.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities - the Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net assets, which are the difference

MANAGEMENT'S DISCUSSION AND ANALYSIS

between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sanitary sewer systems. This activity is financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

Governmental Funds

The Governmental Funds account of most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund includes the Water and Sewer Funds, considered to be a major fund of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2004.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current and other assets	\$ 406,950	\$ 347,497	\$ 754,447
Capital assets net of accumulated depreciation	<u>323,544</u>	<u>5,595,770</u>	<u>5,919,314</u>
Total Assets	730,494	5,943,267	6,673,761
LIABILITIES			
Current liabilities	89,601	88,264	177,865
Long-term liabilities	<u>0</u>	<u>3,198,752</u>	<u>3,198,752</u>
Total Liabilities	89,601	3,287,016	3,376,617
NET ASSETS			
Invested in capital assets net of related debt	315,115	2,333,642	2,648,757
Restricted	112,979	121,552	234,531
Unrestricted	<u>212,799</u>	<u>201,057</u>	<u>413,856</u>
Total Net Assets	<u>\$ 640,894</u>	<u>\$ 2,656,251</u>	<u>\$ 3,297,144</u>

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$414,000.

The following analysis provides the changes in the net assets for the City's governmental and business-type activities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
REVENUES:			
Charges for services	\$ 112,570	\$ 582,238	\$ 694,808
Operating grants and contribution	140,708	0	140,708
Capital grants and contributions	0	0	0
GENERAL REVENUES:			
Property taxes	348,483	0	348,483
State shared revenue	157,826	0	157,826
Unrestricted investment earnings	836	0	836
Miscellaneous	<u>1,854</u>	<u>0</u>	<u>1,854</u>
Total Revenues	762,277	582,238	1,344,515

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Governmental Activities	Business-type Activities	Total
PROGRAM EXPENSES:			
Legislative	\$ 9,941	\$ 0	\$ 9,941
General government	255,546	0	255,546
Public safety	195,700	0	195,700
Public works	212,683	0	212,683
Recreation/cultural	13,127	0	13,127
Water and Sewer	<u>0</u>	<u>701,651</u>	<u>701,651</u>
 Total expenses	 686,997	 701,651	 1,388,648
 INCREASE(DECREASE) IN NET ASSETS	 <u>\$ 75,280</u>	 <u>\$ (119,413)</u>	 <u>\$ (44,133)</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Pinconning completed its year, its governmental funds reported a total fund balance of \$325,779, which is greater than the \$228,201 total fund balance at June 30, 2003.

The General Fund, the operating fund for the City, ended FY04 with an \$212,799 balance compared to the prior year ending fund balance of \$132,999.

Major Street Fund Balance increased by \$4,077.

Local Street Fund Balance increased by \$13,700.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water and Sewer Fund, which accounts for the operation and maintenance of the City's water and sewer system, ended FY04 with a \$2,656,251 net asset balance compared to prior year ending net asset balance of \$2,775,663.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2004, the City amended the budget five (5) times. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to cover unplanned expenditures associated with projects that carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$323,544 (net of accumulated depreciation) at June 30, 2004. Capital assets for business-type activities totaled \$5,595,770 (net of accumulated depreciation) at June 30, 2004. See the notes to the financial statements for more information about the City's capital assets. The major capital outlays for governmental activities during the year included a police car. For business-type activities, no major additions were incurred.

LONG-TERM DEBT

At year end the City had \$3,262,128 in outstanding revenue bonds. All debt in the business-type activities is detailed below:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Water and Sewer Fund

Revenue Bond issued to improve, enlarge and extend the City's water and sewer system.

General obligation	\$ 527,088
Balance June 30, 2003	213,504
Balance June 30, 2004	160,128

Original issue 1996 - Series A	2,511,000
Balance June 30, 2003	2,476,000
Balance June 30, 2004	2,471,000

Original issue 1996 - Series B	60,000
Balance June 30, 2003	53,000
Balance June 30, 2004	52,000

Original issue 2002 - Series A	544,000
Balance June 30, 2003	538,000
Balance June 30, 2004	535,000

Original issue 2002 - Series A	47,000
Balance June 30, 2003	45,000
Balance June 30, 2004	44,000

ECONOMIC FACTORS

Our elected officials consider many factors when setting the City's 2005 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. This resulted in a \$40,000 decrease in State shared revenues in the year ended June 30, 2004 and additional cuts may be forthcoming in 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact Administration at the City of Pinconning, 208 Manitou, PO Box 628, Pinconning, MI 48650.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			
	Governmental Activities	Business -Type Units	Total	Component Unit
ASSETS:				
Cash	\$ 312,437.49	\$ 100,259.94	\$ 412,697.43	\$ 178,536.54
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	76,091.00	115,349.54	191,440.54	0.00
Inventory	0.00	2,329.00	2,329.00	0.00
Receivable from State	18,421.44	0.00	18,421.44	0.00
Restricted cash	0.00	121,552.00	121,552.00	0.00
Refinancing costs	0.00	8,006.20		0.00
Capital assets:				
Land	25,000.00	50,000.00	75,000.00	100,000.00
Buildings and improvements	897,304.00	3,450,949.01	4,348,253.01	175,000.00
Equipment	451,962.34	331,941.82	783,904.16	0.00
Water and sewer systems	0.00	4,093,782.75	4,093,782.75	0.00
Accumulated depreciation	(1,050,721.79)	(2,330,903.48)	(3,381,625.27)	(37,550.00)
Total Assets	730,494.48	5,943,266.78	6,673,761.26	415,986.54
LIABILITIES:				
Accounts payable	12,764.46	19,377.56	32,142.02	0.00
Accrued expenses	13,206.85	5,510.53	18,717.38	0.00
Deferred revenue	55,200.00	0.00		0.00
Notes and bonds payable				
Amount due within one year	8,429.54	63,376.00	71,805.54	8,079.03
Amount due more than one year	0.00	3,198,752.00	3,198,752.00	81,401.96
Total Liabilities	89,600.85	3,287,016.09	3,321,416.94	89,480.99
NET ASSETS:				
Investment in capital assets net of related debt	315,115.01	2,333,642.10	2,648,757.11	147,969.01
Restricted major and local streets	112,979.18	0.00	112,979.18	0.00
Restricted for debt service	0.00	121,552.00	121,552.00	0.00
Unrestricted	212,799.44	201,056.59	413,856.03	178,536.54
Total Net Assets	\$ 640,893.63	\$ 2,656,250.69	\$ 3,297,144.32	\$ 326,505.55

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING

Bay County, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
Legislative	\$ 9,941.81	\$ 0.00	\$ 0.00	\$ 0.00
General Government	255,546.37	3,518.13	9,901.96	0.00
Public Safety	195,699.77	3,163.37	2,312.93	0.00
Public Works	212,682.93	105,888.69	108,493.29	0.00
Recreation and Cultural	13,126.99	0.00	20,000.00	0.00
Total governmental activities	686,997.87	112,570.19	140,708.18	0.00
BUSINESS-TYPE ACTIVITIES				
Water and Sewer	701,650.79	582,238.00	0.00	0.00
Total business-type activities	701,650.79	582,238.00	0.00	0.00
Total Primary Government	\$ 1,388,648.66	\$ 694,808.19	\$ 140,708.18	\$ 0.00
COMPONENT UNIT:				
Downtown Development Authority	69,938.86	19,400.00	0.00	66,678.79
GENERAL PURPOSE REVENUES:				
Property taxes				
State shared revenues				
Unrestricted Investment earnings				
Mobile home fees				
Late payment penalties on taxes				
Transfers				
Total General Purpose Revenues and Transfers				
Change in Net Assets				
Net Assets at beginning of year, as adjusted				
Net Assets - End of Year				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (9,941.81)	\$ 0.00	\$ (9,941.81)	\$ 0.00
(242,126.28)	0.00	(242,126.28)	0.00
(190,223.47)	0.00	(190,223.47)	0.00
1,699.05	0.00	1,699.05	0.00
6,873.01	0.00	6,873.01	0.00
(433,719.50)	0.00	(433,719.50)	0.00
0.00	(119,412.79)	(119,412.79)	0.00
0.00	(119,412.79)	(119,412.79)	0.00
(433,719.50)	(119,412.79)	(553,132.29)	0.00
			16,139.93
348,483.49	0.00	348,483.49	0.00
157,826.00	0.00	157,826.00	0.00
836.45	0.00	836.45	946.53
260.50	0.00	260.50	0.00
1,593.29	0.00	1,593.29	0.00
0.00	0.00	0.00	0.00
508,999.73	0.00	508,999.73	946.53
75,280.23	(119,412.79)	(44,132.56)	17,086.46
565,613.40	2,775,663.48	3,341,276.88	309,419.09
\$ <u>640,893.63</u>	\$ <u>2,656,250.69</u>	\$ <u>3,297,144.32</u>	\$ <u>326,505.55</u>

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2004

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
ASSETS:				
Cash	\$ 213,031.60	\$ 39,695.70	\$ 59,610.19	\$ 312,337.49
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	76,091.00	0.00	0.00	76,091.00
Prepaid expenses	0.00	0.00	0.00	0.00
Due from other Funds	100.00	0.00	0.00	100.00
Due from State	0.00	13,762.17	4,659.27	18,421.44
TOTAL ASSETS	\$ 289,222.60	\$ 53,457.87	\$ 64,269.46	\$ 406,949.93
LIABILITIES:				
Accounts payable	\$ 8,016.31	\$ 4,748.15	\$ 0.00	\$ 12,764.46
Deferred revenue	55,200.00	0.00	0.00	55,200.00
Accrued expenses	13,206.85	0.00	0.00	13,206.85
Payable to other governments	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	76,423.16	4,748.15	0.00	81,171.31
FUND BALANCES:				
Reserved	0.00	0.00	0.00	0.00
Unreserved, reported in:				
General Fund	212,799.44	0.00	0.00	212,799.44
Special Revenue Funds	0.00	48,709.72	64,269.46	112,979.18
Capital Projects Funds	0.00	0.00	0.00	0.00
Total Fund Balances	212,799.44	48,709.72	64,269.46	325,778.62
TOTAL LIABILITIES AND FUND BALANCES	\$ 289,222.60	\$ 53,457.87	\$ 64,269.46	\$ 406,949.93

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
June 30, 2004

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	325,778.62
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:		
Capital assets at cost		1,374,266.34
Accumulated depreciation		(1,050,721.79)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds		(8,429.54)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>640,893.63</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended June 30, 2004

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
REVENUES:				
Taxes	\$ 397,653.49	\$ 0.00	\$ 0.00	\$ 397,653.49
State Grants	157,826.00	81,078.07	27,415.22	266,319.29
Intergovernmental other	32,214.89	0.00	0.00	32,214.89
Charges for Services	6,717.36	0.00	0.00	6,717.36
Fines and Forfeits	3,085.83	0.00	0.00	3,085.83
Interest and Rentals	55,836.42	191.63	259.19	56,287.24
Other Revenue	0.00	0.00	0.00	0.00
Total Revenues	653,333.99	81,269.70	27,674.41	762,278.10
EXPENDITURES:				
Legislative	9,941.81	0.00	0.00	9,941.81
General Government	176,787.05	0.00	0.00	176,787.05
Public Safety	202,762.59	0.00	0.00	202,762.59
Public Works	152,414.15	56,923.15	34,244.39	243,581.69
Cultural and Recreation	11,839.49	0.00	0.00	11,839.49
Capital Outlay	19,788.01	0.00	0.00	19,788.01
Debt service	0.00	0.00	0.00	0.00
Total Expenditures	573,533.10	56,923.15	34,244.39	664,700.64
EXCESS OF REVENUES OVER EXPENDITURES	79,800.89	24,346.55	(6,569.98)	97,577.46
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	20,269.52	20,269.52
Transfer to other funds	0.00	(20,269.52)	0.00	(20,269.52)
Total Other Financing Sources (Uses)	0.00	(20,269.52)	20,269.52	0.00
NET CHANGE IN FUND BALANCES	79,800.89	4,077.03	13,699.54	97,577.46
FUND BALANCE - July 1, 2003	132,998.55	44,632.69	50,569.92	228,201.16
FUND BALANCE - June 30, 2004	\$ 212,799.44	\$ 48,709.72	\$ 64,269.46	\$ 325,778.62

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING

Bay County, MichiganGOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 97,577.46

Amounts reported for governmental activities in the statement
of activities are different because -

Governmental funds report capital outlays as expenditures
while in the statement of activities, these costs are allocated
over their estimated lives as depreciation expense.

Depreciation expense	(53,306.02)
Capital asset purchases capitalized	19,788.01

Repayment of debt principal is an expenditure in the governmental
funds, the repayment does not have an effect in the statement
of activities but does reduce the debt balance in the statement
of net assets.

Principal payments on long term debt	11,220.78
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>75,280.23</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUND
 STATEMENT OF NET ASSETS
 WATER AND SEWER FUND
June 30, 2004

Business Type
Activities

Water and
 Sewer
 Fund

ASSETS:

Current Assets:

Cash
 Accounts receivable
 Inventory
 Prepaids
 Total Current Assets

\$ 221,811.94
 115,349.54
 2,329.00
 0.00
339,490.48

Noncurrent Assets:

Capital Assets:
 Buildings and Improvements
 Equipment
 Water and sewer systems
 Accumulated depreciation
 Refinancing costs
 Total Noncurrent Assets

3,500,949.01
 331,941.82
 4,093,782.75
 (2,330,903.48)
 8,006.20
5,603,776.30

Total Assets

5,943,266.78

LIABILITIES:

Current Liabilities

Accounts payable
 Due to County
 Accrued expenses
 Revenue bonds payable
 Total Current Liabilities

7,494.50
 11,883.06
 5,510.53
 63,376.00
88,264.09

Noncurrent Liabilities

Revenue bonds payable
 Total Noncurrent Liabilities

3,198,752.00
3,198,752.00

Total Liabilities

3,287,016.09

NET ASSETS:

Invested in capital assets net of related debt
 Restricted for debt retirement
 Unrestricted

2,333,642.10
 121,552.00
 201,056.59

Total Net Assets

\$ 2,656,250.69

Reconciliation of Government Wide Statement of Net Assets:

Net assets of business-type activities

\$ 2,656,250.69

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2004

OPERATING REVENUES:

Charges for Services	
Water charges	\$ 220,385.97
Sewer charges	329,027.74
Water hydrant rental	7,000.00
Septage income	14,064.00
Late payment fees	4,869.16
Miscellaneous	2,302.50
	<hr/>
Total Operating Revenues	577,649.37

OPERATING EXPENSES:

Salaries	98,825.13
Fringes and taxes	46,928.04
Water - Cost of goods sold	98,820.80
Contractual Services	23,858.58
Supplies	9,534.97
Repairs and Maintenance	37,625.87
Utilities	52,311.18
Insurance	8,246.17
Other	4,767.13
Depreciation	167,866.24
Total Operating Expenses	<hr/> 548,784.11

Operating Income	28,865.26
------------------	-----------

NONOPERATING REVENUES(EXPENSES)

Interest Income	4,588.63
Loss on sale of capital asset	0.00
Interest Expense	(152,866.68)
Total Nonoperating Expenses	<hr/> (148,278.05)

Income before contributions and transfers	<hr/> (119,412.79)
---	--------------------

Capital contributions	0.00
Transfers In	0.00
Transfers Out	0.00
	<hr/>

Change in Net Assets	(119,412.79)
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Net Assets Beginning of Year	<hr/> 2,775,663.48
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Net Assets End of Year	\$ <hr/> <hr/> 2,656,250.69
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The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
Year Ended June 30, 2004

	Business Type Activities - Enterprise Fund
	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 588,938.60
Other operating cash receipts	7,000.00
Cash payments to suppliers for goods and services	(300,532.42)
Cash payments to employees for services	(110,671.37)
Net cash provided (used) by operating activities	<u>184,734.81</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:	
Transfers from other funds	0.00
Transfers to other funds	<u>0.00</u>
Net cash provided (used) by noncapital financing activities	0.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	0.00
Proceeds from sale of capital assets	0.00
Principal on County note	(17,001.76)
Interest paid on bonds	(152,866.68)
Principal payments on bonds	(63,376.00)
Contributed capital	<u>0.00</u>
Net cash provided (used) by capital and related financing activities	(233,244.44)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>4,588.63</u>
Net increase (decrease) in cash	(43,921.00)
Cash beginning of year	<u>265,732.94</u>
Cash end of year	\$ <u><u>221,811.94</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	\$ 28,865.26
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	167,866.24
Amortization	2,668.80
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	18,289.23
Increase (decrease) in accounts payable	(21,108.48)
Increase (decrease) in accrued expenses	<u>(11,846.24)</u>
Net Cash Provided (Used) in Operating Activities	\$ <u><u>184,734.81</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING

Bay County, Michigan

STATEMENT OF NET ASSETS

FIDUCIARY FUND

June 30, 2004

TAX
COLLECTION
AGENCY
FUND

ASSETS

Cash in Bank

\$ 100.00

LIABILITIES

Due to general fund

\$ 100.00

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT
STATEMENT OF NET ASSETS
DOWNTOWN DEVELOPMENT AUTHORITY
June 30, 2004

ASSETS:

Current Assets:

Cash	\$	178,536.54
Accounts receivable		0.00
Prepays		0.00
Total Current Assets		<u>178,536.54</u>

Noncurrent Assets:

Land		100,000.00
Buildings and Improvements		175,000.00
Accumulated depreciation		(37,550.00)
Total Noncurrent Assets		<u>237,450.00</u>

Total Assets		415,986.54
--------------	--	------------

LIABILITIES:

Current Liabilities

Accounts payable		0.00
Accrued expenses		0.00
Building authority bond		8,079.03
Total Current Liabilities		<u>8,079.03</u>

Noncurrent Liabilities

Building authority bond		81,401.96
Total Noncurrent Liabilities		<u>81,401.96</u>

Total Liabilities		89,480.99
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NET ASSETS:

Invested in capital assets net of related debt		147,969.01
Unrestricted		<u>178,536.54</u>
Total Net Assets	\$	<u>326,505.55</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING

Bay County, Michigan

COMPONENT UNIT
 STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>
DOWNTOWN DEVELOPMENT AUTHORITY				
Public Works	\$ 69,128.86	\$ 19,400.00	\$ 0.00	\$ 0.00
Interest on long term debt	810.00	0.00	0.00	0.00
Total governmental activities	<u>69,938.86</u>	<u>19,400.00</u>	<u>0.00</u>	<u>0.00</u>
GENERAL REVENUES:				
Property taxes				
Unrestricted Investment earnings				
Total General Purpose Revenues and Transfers				
Change in Net Assets				
Net Assets at beginning of year, as adjusted				
Net Assets - End of Year				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue
and Change in
Net Assets

Downtown
Development
Authority

\$ (49,728.86)
(810.00)

(50,538.86)

66,678.79

946.53

67,625.32

17,086.46

309,419.09

\$ 326,505.55

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A: DESCRIPTION OF REPORTING ENTITY:

The City of Pinconning is located in Bay County and operates under an elected Board of Trustees (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below. For the year ended June 30, 2004, the City has implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

B: REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit//burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pinconning has one component unit, the Downtown Development Authority. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, and promote growth within the district. The Authority's governing body, which consists of nine (9) individuals, is appointed by the Mayor and approved by the City Council.

C. BASIS OF PRESENTATION:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of City. The effect of the interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

D: FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

Local Street Fund -

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major propriety funds:

Water and Sewer Fund -

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. Operating expenses for the propriety funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency Funds -

The Tax Collections Agency Fund accounts for assets held by the City in a trustee capacity. Tax collections are custodial in nature and do not involve the measurement of results of operations.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for propriety funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

E. CAPITAL ASSETS -

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	40-56 years
Land improvements	15-20 years
Vehicles	5-10 years
Furniture and other equipment	3-10 years

F. FUND EQUITY -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

G. COMPARATIVE DATA/RECLASSIFICATIONS -

Comparative data is not included in the City's financial statements.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

H. ACCOUNTING CHANGE -

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows: A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included. Entity-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.

I. PROPERTY TAXES:

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 15 with a final collection date of February 28 before they are added to the county tax rolls. The 2003 taxable valuation of City properties totaled \$24,881,323. The taxes levied and the resulting revenue by fund and component unit was as follows:

	<u>Millage Rate</u>	<u>Revenue</u>
Operating millage - Net of portion captured by Downtown Development Authority	14.8530	\$ 348,483.49
Refuse Collection fees		49,170.00
Trailer park fees		260.50
Total governmental funds		<u>\$ 397,913.99</u>
Downtown Development Authority capture		<u>\$ 66,678.79</u>

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the City to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City had no accumulated fund balance deficits.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2003

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Monthly Ranges	Beginning Balance	Additions (Deductions)	Ending Balance	Current Portion
GOVERNMENTAL ACTIVITIES						
Fire truck Installment Loan	5.4	\$ 1,000/mo	\$ 19,650.32	\$ (11,220.78)	\$ 8,429.54	\$ 8,249.54
BUSINESS-TYPE ACTIVITIES						
1997 Refunding Bonds General Obligation	4.25 - 5.20	53,376/yr	213,504.00	(53,376.00)	160,128.00	53,376
1996 Revenue Bond B	4.5	1,000/yr	53,000.00	(1,000.00)	52,000.00	1,000
1996 Revenue Bond A	4.5	5,000-5,500/yr	2,476,000.00	(5,000.00)	2,471,000.00	5,000
2002 Revenue Bond A	4.75	3,000-5,000/yr	538,000.00	(3,000.00)	535,000.00	3,000
2002 Revenue Bond B	4.75	1,000-3,000/yr	<u>45,000.00</u>	<u>(1,000.00)</u>	<u>44,000.00</u>	<u>1,000</u>
Total Business-Type Activity			3,325,504.00	(63,376.00)	3,262,128.00	63,376
COMPONENT UNIT						
Building Authority Bond	9.00	9,000/yr	9,000.00	(9,000.00)	0.	-
Revitalization Loan	2.25	11,000-8,079/yr	<u>99,573.34</u>	<u>(10,092.35)</u>	<u>89,480.99</u>	<u>8,079</u>
Total Component Unit			\$ 108,573.34	\$ (19,092.35)	\$ 89,480.99	\$ 8,079

Annual debt service requirements:

	GOVERNMENT ACTIVITIES			BUSINESS-TYPE ACTIVITIES			COMPONENT UNIT		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	8,429.59	227.59	8,657.18	63,376.50	149,204.00	215,580.00	8,079.03	2,013.32	10,092.35
2006	0	0	0	67,376.00	146,075.00	213,451.00	8,260.81	1,831.54	10,092.35
2007	0	0	0	81,376.00	142,713.00	224,089.00	8,446.67	1,645.68	10,092.35
2008	0	0	0	58,000.00	138,667.00	196,667.00	8,636.72	1,455.63	10,092.35
2009	0	0	0	64,000.00	133,427.00	197,427.00	8,831.05	1,261.30	10,092.35
2010-2014	0	0	0	323,000.00	638,091.00	961,091.00	47,226.71	3,238.04	50,464.75
2015-2019	0	0	0	358,000.00	562,427.00	920,427.00	0	0	0
2020-2024	0	0	0	461,000.00	487,980.00	948,980.00	0	0	0
2025-2029	0	0	0	608,000.00	356,250.00	964,250.00	0	0	0
2030-2034	0	0	0	766,000.00	210,334.00	976,334.00	0	0	0
2035-2039	<u>0.</u>	<u>0.</u>	<u>0.</u>	<u>418,000.00</u>	<u>251,800.00</u>	<u>669,800.00</u>	<u>0.</u>	<u>0.</u>	<u>0.</u>
Totals	8,429.59	227.59	8,657.18	3,262,128.00	2,970,297.00	6,232,425.00	89,480.99	11,445.51	100,926.50

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance July 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated				
Buildings and improvements	897,304	-	-	897,304
Furniture and equipment	<u>432,174</u>	<u>19,788</u>	<u>-</u>	<u>451,962</u>
Subtotal	1,329,478	195,788		1,349,266
Less accumulated depreciation	<u>993,916</u>	<u>56,806</u>		<u>1,050,722</u>
Net capital assets being depreciated	<u>335,562</u>	<u>(37,018)</u>		<u>298,544</u>
Net capital assets	<u>\$ 360,562</u>	<u>\$ (37,018)</u>	<u>\$ -</u>	<u>\$ 323,544</u>
Business -type activities:				
Capital assets not being depreciated				
Land	50,000	-	-	50,000
Capital assets being depreciated				
Buildings and improvements	3,450,949	-	-	3,450,949
Water and sewer distribution systems	4,093,783	-	-	4,093,783
Furniture and equipment	<u>331,942</u>	<u>-</u>	<u>-</u>	<u>331,942</u>
Subtotal	7,876,674	-	-	7,876,674
Less accumulated depreciation	<u>2,163,037</u>	<u>167,866</u>	<u>-</u>	<u>2,330,903</u>
Net capital assets being depreciated	<u>\$5,713,637</u>	<u>\$ (167,866)</u>	<u>\$ -</u>	<u>\$5,545,771</u>
Total net capital assets	<u>\$5,763,637</u>	<u>\$ (167,866)</u>	<u>\$ -</u>	<u>\$5,595,771</u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4. CAPITAL ASSETS (continued):

Capital assets activity for the City's component unit for the year was as follows:

	<u>Balance July 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30</u>
Component unit				
Capital assets not being depreciated -				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Capital assets being depreciated				
Buildings and improvements	175,000	-	-	175,000
Less accumulated depreciation	<u>34,050</u>	<u>3,500</u>	<u>-</u>	<u>37,550</u>
Net capital assets being depreciated	<u>140,950</u>	<u>(3,500)</u>	<u>-</u>	<u>137,450</u>
Net capital assets	<u>\$ 240,950</u>	<u>\$ (3,500)</u>	<u>\$ -</u>	<u>\$ 237,450</u>

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:	
General government	\$ 12,320
Public safety	4,158
Public works	35,540
Recreation and culture	<u>1,288</u>
Total depreciation expense- Governmental activities	<u>\$ 53,306</u>
Business-type activities:	
Water and sewer	<u>\$ 167,866</u>
Component unit:	
DDA	<u>\$ 3,500</u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ <u>100.00</u>	Tax Collection Fund	\$ <u>100.00</u>

NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A. LEGAL COMPLIANCE:

Act 217, PA 1982, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loans associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan.

All City deposits were in compliance with state statutes.

B. DEPOSITS:

Deposits are carried at cost. Deposits of the City are maintained at National City Bank and Independent Bank, federally insured banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the City's cash deposit at June 30, 2004 are as follows:

<u>Deposit</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 400,000
Uninsured and Uncollateralized	<u>12,697</u>
Total	<u>\$ 412,697</u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$23,736 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	<u>Fiscal Year Ended June 30</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost (APC)	\$ 14,471	\$ 21,252	\$ 23,736
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

NOTE 8. RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 8. RISK MANAGEMENT (cont'd.):

certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any or the past three fiscal years.

The City manages its workers' compensation by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks thorough commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PINCONNING

Bay County, Michigan

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 330,000.00	\$ 330,000.00	\$ 348,483.49	\$ 18,483.49
Special assessment solid waste	49,000.00	49,000.00	49,170.00	170.00
State revenue sharing	160,000.00	160,000.00	157,826.00	(2,174.00)
Intergovernmental other	7,550.00	7,550.00	32,214.89	24,664.89
Fines and fees	2,000.00	2,000.00	3,085.83	1,085.83
Charges for services	19,000.00	19,350.00	6,717.36	(12,632.64)
Interest	5,000.00	5,000.00	385.63	(4,614.37)
Rental	50,000.00	50,000.00	55,450.79	5,450.79
Other Revenue	15,000.00	36,200.00	0.00	(36,200.00)
Total Revenues	637,550.00	659,100.00	653,333.99	(5,766.01)
EXPENDITURES:				
Legislative	10,440.00	9,941.81	9,941.81	0.00
General Government				
City Manager	58,606.00	54,385.41	54,708.17	(322.76)
Elections	1,785.00	1,586.08	1,561.75	24.33
Accounting	10,290.00	7,104.54	6,951.73	152.81
Assessor	9,900.00	10,945.48	10,162.81	782.67
Attorney	5,000.00	0.00	0.00	0.00
Board of Review	725.00	725.00	688.55	36.45
Treasurer	22,177.00	23,489.23	22,732.01	757.22
Clerk	45,813.00	47,592.05	45,350.07	2,241.98
City Hall	29,329.00	39,840.80	34,631.96	5,208.84
Public Safety				
Fire	51,650.00	48,708.54	48,700.00	8.54
Police	162,503.06	186,653.06	172,464.60	14,188.46
Ambulance	1,386.00	1,386.00	1,386.00	0.00
Public Works				
Sanitation	46,800.00	46,800.00	53,113.52	(6,313.52)
Planning	450.00	450.00	259.06	190.94
Street lighting	17,250.00	17,250.00	15,214.71	2,035.29
Department of Public works	92,405.00	91,905.00	83,826.86	8,078.14
Cultural and Recreation				
Parks	12,628.00	14,924.06	11,839.49	3,084.57
Total Expenditures	579,137.06	603,687.06	573,533.10	30,153.96
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	(1,000.00)	0.00	0.00	0.00
Net Other Financing Sources (Uses)	(1,000.00)	0.00	0.00	0.00
NET CHANGE IN FUND BALANCE	57,412.94	55,412.94	79,800.89	24,387.95
FUND BALANCE - BEGINNING OF YEAR	132,998.55	132,998.55	132,998.55	0.00
FUND BALANCE - END OF YEAR	\$ 190,411.49	\$ 188,411.49	\$ 212,799.44	24,387.95

CITY OF PINCONNING

Bay County, Michigan

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State Grants	74,000.00	74,000.00	81,078.07	7,078.07
Interest and Rentals	100.00	100.00	191.63	91.63
Total Revenues	74,100.00	74,100.00	81,269.70	7,169.70
EXPENDITURES:				
Public Works				
Routine maint	25,000.00	25,000.00	26,711.34	(1,711.34)
Signals and signs	3,500.00	3,500.00	3,127.53	(372.47)
Equipment rental	20,000.00	20,000.00	23,939.96	3,939.96
Other	14,000.00	10,000.00	3,144.32	(6,855.68)
Total Expenditures	62,500.00	58,500.00	56,923.15	(4,999.53)
EXCESS REVENUES OVER EXPENDITURES	11,600.00	15,600.00	24,346.55	34,187.41
OTHER FINANCING SOURCES (USES)				
Transfer to local street	(18,500.00)	(22,500.00)	(20,269.52)	446.69
Excess (deficiency) of revenues over expenditures and other uses	(6,900.00)	(6,900.00)	4,077.03	34,634.10
FUND BALANCE - BEGINNING OF YEAR	44,000.00	44,632.69	44,632.69	0.00
FUND BALANCE - END OF YEAR	\$ 37,100.00	\$ 37,732.69	\$ 48,709.72	\$ 34,634.10

CITY OF PINCONNING

Bay County, Michigan

LOCAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State Grants	24,000.00	24,000.00	27,415.22	5,213.23
Interest and Rentals	100.00	100.00	259.19	297.99
Total Revenues	24,100.00	24,100.00	27,674.41	5,511.22
EXPENDITURES:				
Public Works				
Routine maint	16,000.00	16,000.00	11,939.32	(4,060.68)
Snow removal	2,000.00	2,000.00	2,440.25	440.25
Equipment rental	25,000.00	25,000.00	19,253.43	(5,746.57)
Other	4,000.00	4,000.00	611.39	(3,388.61)
Total Expenditures	47,000.00	47,000.00	34,244.39	(12,755.61)
EXCESS REVENUES OVER EXPENDITURES	(22,900.00)	(22,900.00)	(6,569.98)	34,187.41
OTHER FINANCING SOURCES (USES)				
Transfer from Major street	18,500.00	18,500.00	20,269.52	446.69
Excess (deficiency) of revenues over expenditures and other uses	(4,400.00)	(4,400.00)	13,699.54	34,634.10
FUND BALANCE - BEGINNING OF YEAR	44,000.00	50,569.92	50,569.92	0.00
FUND BALANCE - END OF YEAR	\$ 39,600.00	\$ 46,169.92	\$ 64,269.46	\$ 34,634.10

OTHER SUPPORTING INFORMATION

CITY OF PINCONNING

Bay County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 70,000.00	\$ 70,000.00	\$ 66,678.79	\$ (3,321.21)
Rental income	19,400.00	19,400.00	19,400.00	0.00
Interest	3,000.00	3,000.00	946.53	(2,053.47)
Total Revenues	92,400.00	92,400.00	87,025.32	(5,374.68)
EXPENDITURES:				
Public Works-				
Project Activities	68,140.00	68,140.00	64,852.65	3,287.35
Debt - Principal	20,100.00	20,100.00	19,092.35	1,007.65
Debt- Interest	1,260.00	1,260.00	810.00	450.00
Other	2,900.00	2,900.00	776.21	2,123.79
Total Expenditures	92,400.00	92,400.00	85,531.21	6,868.79
Excess Revenues over Expenditures	0.00	0.00	1,494.11	(1,494.11)
FUND BALANCE - BEGINNING OF YEAR	177,042.43	177,042.43	177,042.43	0.00
FUND BALANCE - END OF YEAR	\$ 177,042.43	\$ 177,042.43	\$ 178,536.54	\$ (1,494.11)

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended June 30, 2004

REVENUES:

Taxes -

Current tax levy	\$ 348,483.49
Special assessment solid waste	49,170.00
Penalties and interest	1,593.29
Collection fee	<u>1,181.59</u>

Total taxes 400,428.37

State and Local Grants -

State revenue sharing	157,826.00
Local grant	20,000.00
State cops grant	9,901.96
Liquor license fees	<u>1,586.75</u>
	189,314.71

Federal Grant

Justice dept. 726.18

Licenses and permits

Dog and Cat	108.00
Zoning	610.00
Mobile home park	<u>260.50</u>

Total licenses and permits 978.50

Fines and penalties 1,492.54

Charges for services

Notary fees	80.00
Copies	154.00
Police/fire reports	3,055.37
Weed Cutting	<u>1,267.90</u>

Total Charges for Services 4,557.27

Interest and Rentals -

Interest	385.63
Rents	<u>55,450.79</u>

Total Interest and Rentals 55,836.42

Total Revenues 653,333.99

EXPENDITURES 573,533.10

NET CHANGE IN FUND BALANCE 79,800.89

FUND BALANCE - July 1, 2003 132,998.55

FUND BALANCE - June 30, 2004 \$ 212,799.44

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Year ended June 30, 2004

EXPENDITURES:

LEGISLATIVE:

Mayor and City Council	\$ 7,760.00
Salaries	593.65
Fringes and taxes	1,359.00
Membership dues	0.00
Audit	229.16
Supplies and other	
	<hr/>
Total Legislative	9,941.81

GENERAL GOVERNMENT:

City Manager	42,547.51
Wages	10,904.81
Fringes and taxes	1,047.28
Telephone	208.57
Mileage and other	
	<hr/>
Total Manager	54,708.17

Elections-	572.84
Wages	712.72
Supplies	276.19
Printing and publication	
	<hr/>
Total Elections	1,561.75

Accounting-	1,821.24
Supplies	5,130.49
Office equip. maint.	0.00
Other costs	
	<hr/>
Total Accounting	6,951.73

Assessor-	8,020.86
Contracted Service	1,028.86
County tax roll service	1,113.09
Supplies and other costs	
	<hr/>
Total Assessor	10,162.81

Board of Review-	525.00
Fees	163.55
Other costs	
	<hr/>
Total board of review	688.55

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year ended June 30, 2004

EXPENDITURES (CONT.):
GENERAL GOVERNMENT (CONT.):

Treasurer-	
Salaries	\$ 18,848.20
Fringes and taxes	3,141.78
Telephone	224.04
Meetings	357.00
Supplies and other	160.99
	<hr/>
Total Treasurer	22,732.01
 Clerk-	
Salaries	29,820.93
Fringes and taxes	14,288.29
Telephone	230.77
Meetings	766.05
Supplies and other	244.03
	<hr/>
Total Clerk	45,350.07
 City Hall and Grounds-	
Contractual services	1,562.14
Miscellaneous	1,350.83
Supplies	307.30
Office	351.94
Audit	2,500.00
Insurance	14,991.61
Utilities	7,591.11
Repairs and maintenance	2,530.33
Telephone	1,897.46
Other costs	1,549.24
	<hr/>
Total City Hall	34,631.96
 Total General Government	176,787.05
 PUBLIC SAFETY:	
Fire Department-	
Contracted fire protection	29,700.00
Hydrant rental	7,000.00
Debt -Principal	11,220.78
Debt - Interest	779.22
	<hr/>
Total Fire Department	48,700.00

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year ended June 30, 2004

EXPENDITURES (CONT.):
PUBLIC SAFETY (CONT.)

Police-	
Salaries	\$ 106,086.81
Fringes and taxes	25,438.12
Office	317.45
Gas and oil	3,555.24
Misc.	490.88
Supplies	307.07
Uniforms	1,699.40
Contracted services	250.00
Telephone	2,052.44
Training	1,317.81
Insurance	7,295.86
Vehicle maint.	3,865.51
Capital outlay	19,788.01

Total Police 172,464.60

Ambulance-	
Contracted service	1,386.00

Total Public Safety 222,550.60

PUBLIC WORKS:

Sanitation-	
Refuse contract	53,113.52

Street Lighting-	15,214.71
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Department of Public Works-	
Salaries	36,323.65
Fringes and taxes	25,705.83
Supplies	2,225.95
Uniforms	930.26
Gas and oil	5,108.23
Telephone	1,631.01
Insurance	6,746.09
Utilities	4,185.47
Maint. and repairs	970.37

Total DPW 83,826.86

Planning and Zoning-	
Contracted services and supplies	259.06

Total Public Works 152,414.15

RECREATION AND CULTURAL:

Parks and Recreation-	
Wages	1,741.90
Fringes and taxes	297.42
Utilities	3,150.78
Repairs and maint.	3,614.92
Insurance	2,506.06
Supplies and other	528.41

Total Recreation and Cultural 11,839.49

Total Expenditures \$ 573,533.10